

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose
SPONSOR: Butte County and Solano County

BILL NUMBER: SB 431
AUTHOR: S. Aanestad

BILL SUMMARY: Public Employees' Retirement: Butte and Solano County

This bill would provide an exception for Butte and Solano counties and allow the CalPERS accounts for each of these counties to be separated into two accounts, one for trial court employees and the other for non-trial court employees. Current law requires that for counties contracting with CalPERS for retirement benefits, the county and the trial court within that county must participate in CalPERS under a joint contract. The sponsors of this bill argue that this bill will clear up current ambiguities as to whether these counties and the trial courts within these counties are each paying their fair share of employer contributions to fund retirement benefits.

FISCAL SUMMARY

CalPERS program costs resulting from this bill are unknown at this time. CalPERS may have one-time administrative costs in the range of \$10,000 with minor and absorbable on-going administrative costs.

COMMENTS

The Department of Finance is opposed to this bill for the following reasons:

- This bill would set a precedent of splitting the account of a trial court and the county in which the trial court resides. Other counties may seek similar legislation in the future. There are currently 36 counties contracting with CalPERS for retirement benefits. This would increase CalPERS' administrative costs and put an undue burden and responsibility on CalPERS to resolve disputes within its contracting counties.
- This bill is a duplicate of last year's AB 733 (Aanestad), which was held in the Assembly Appropriations Committee. AB 733 was unnecessary because CalPERS and Butte County had reached agreement on how to resolve this issue. According to CalPERS staff it was agreed that Butte County would hire an outside actuary to separate CalPERS' Butte County rate into one rate for the trial court employees and another rate for all others. Butte County hired an actuary, the rate was separated, and the separation of rates was approved by CalPERS actuaries. AB 733 would have negated the previous agreement reached between CalPERS and Butte County, resulting in an additional administrative burden on CalPERS. This resolution has since dissolved and the both Butte and Solano County want CalPERS to conduct the actuarial analyses, separate the rates, and have the counties approve the new rates. CalPERS is currently in discussions with the counties on potential solutions. It is unreasonable to put an additional undue administrative burden on CalPERS to resolve a problem for which there is already a solution.

Analyst/Principal (0932) K. Hansen	Date	Program Budget Manager Thomas E. Dithridge	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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S. Aanestad

Original

SB 431

ANALYSIS**A. Programmatic Analysis**

The sponsors of this bill argue that this bill will clear up current ambiguities as to whether Butte and Solano County and the Butte and Solano County trial courts are each paying their fair share of employer contributions to fund retirement benefits.

In 2004, Butte and Solano County issued pension obligation bonds to pre-pay the employer contribution to the retirement system, but the pension obligation bonds were not intended to pre-pay the employer contribution for the other entities covered under the counties contracts (for example, Butte trial courts). However, four entities in Butte County (the county, Law Library, County Fair and trial court) participate under the same contract. As a result, only one employer rate can be determined by CalPERS. This rate is currently 0%. Without the prepayment provided by the bonds, the required employer contribution rate for these other entities would otherwise have been approximately 10.044%. The county reported that the Law Library and the County Fair agreed to reimburse the county directly for the prepaid employer contributions. Because the trial court is funded by the state, however, the trial court has continued to pay CalPERS with the monies it receives from the state. This has contributed to an 'overpayment' situation at CalPERS, and the counties have sought this legislation as a remedy to recover those funds."

Because the trial court continued to make 10.044 percent contributions while the county's obligations had been prepaid with the pension bonds, the overpayment situation resulted. CalPERS and Butte County reached agreement as to how to deal with this situation last year. According to CalPERS staff it was agreed that Butte County would hire an outside actuary to separate CalPERS' Butte County rate into one rate for the trial court employees and another rate for all others. Butte County hired an actuary, the rate was separated, and the separation of rates was approved by CalPERS actuaries. AB 733 would have negated the previous agreement reached between CalPERS and Butte County, resulting in an additional administrative burden on CalPERS. This resolution has since dissolved and the both Butte and Solano County want CalPERS to conduct the actuarial analyses, separate the rates, and have the counties approve the new rates. CalPERS is currently in discussions with the counties on potential solutions. It is unreasonable to put an additional undue administrative burden on CalPERS to resolve a problem for which there is already a solution.

This bill requires the trial courts of Butte and Solano Counties to participate in a risk pool while permitting the assets and liabilities of the counties and trial courts to be kept separately. By separating the assets and liabilities of the Counties of Butte and Solano from their respective trial courts and calculating separately the employer contribution rates, the Counties of Butte and Solano feel the state will contribute an adequate employer rate for the trial court employees.

CalPERS' staff anticipates the Board of Administration will review SB 431 at its May 2007 meeting.

B. Fiscal Analysis

CalPERS program costs resulting from this bill are unknown at this time. CalPERS may have one-time administrative costs in the range of \$10,000 with minor and absorbable on-going administrative costs.

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		SO	(Fiscal Impact by Fiscal Year)						
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							
Type	RV	98	FC	2006-2007	FC	2007-2008	FC	2008-2009	Fund Code
1900/PERS	SO	No	-----	See Fiscal Summary				-----	0830
<u>Fund Code</u>	<u>Title</u>								
0830	Public Employees' Retirement Fund								